

June 6, 2008

Mr. Karsom Enlet
Executive Director
Chuuk State Health Care Plan
P.O. Box 1679
Weno, Chuuk State
Federated States of Micronesia

Dear Mr. Enlet:

In planning and performing our audit of the financial statements of the Chuuk State Health Care Plan, (the "Plan") for the year ended September 30, 2007 (on which we have issued our report dated June 6, 2008 and which report was qualified due to the current year impact of an inability to determine the adequacy of prior year accounting records), we developed the following recommendations concerning certain matters relating to other accounting, administrative, and operating matters for which we submit our comments and recommendations as described below.

1. Professional Fees Paid to Third Parties

Observation: As of September 30, 2007, we noted consultant/professional fees of \$28,000 paid to consultants. However, the following was noted:

- a. An agreement was executed for investment management-related work. The agreement commenced in 2007 for \$2,000 a month. As of report date, we have not been provided evidence of work performed.
- b. A third party consultant who is represented as being a former Plan officer, was paid a one time consultant fee of \$6,000 for work relating to accreditation of Hawaii hospitals. However, the contract was not made available.
- c. Legal fees of \$20,000 were incurred and payments were not supported by invoices or billings. Therefore, the nature of services rendered has not been documented.

Recommendation: The Plan should ensure that contracts are executed and performance occurs. Additionally, invoices and reports should be available to substantiate work performed.

2. Medical Benefits

Observation: Some members appear to have received benefits despite Plan requirements not being met:

- a. Costs of dental work were claimed (reference check no. 121 dated December 13, 2007), but were not supported by an authorization from the referral committee. Further, the reimbursement receipt does not describe the dental work performed and therefore, it appears that the dental care may not have been a covered Plan benefit. [see Benefits Exclusion p. 12 No. 24]

2. Medical Benefits, Continued

- b. An off-island member was reimbursed for emergency medical procedures despite absence of referral committee authorization (reference check no. 220 dated August December 28, 2007). Further, the clinic performing the procedure is not accredited by the Plan.

Recommendation: Plan policy requires that medical procedures be approved by the referral committee, be qualified under allowable claims per policy, and be performed only in accredited clinics. These policies should be enforced.

3. Payroll Procedures

Observation: We noted the following matters related to the processing of payroll:

- a. For the pay period ending October 29, 2006, a discrepancy existed between payroll per the payroll register and the general ledger balance. The difference approximated \$1,000. We could not determine the reason or rationale for this difference.
- b. Pay checks were prepared days, and at times, weeks before the end of a pay period. Per management, this practice was aimed at precluding the delay of check release due to delays caused by the lack of a check signatory. Therefore, it appears that checks have been prepared based on payroll estimates and no actual timesheets are available. The following are certain examples tested which evidence this matter:

<u>Pay Period</u>	<u>Check No.</u>	<u>Check Date</u>
1/22/07 to 2/04/07	1410	1/25/2007
5/14/07 to 5/27/07	1496	5/21/2007
6/11/07 to 6/24/07	1519	6/21/2007
7/23/07 to 8/05/07	1551	7/26/2007
9/17/07 to 9/30/07	1586	9/11/2007
9/17/07 to 9/30/07	1587	9/11/2007

Recommendation: Management should revisit current practice. Timesheets should be required and payroll should be paid only when due.

4. Discrepancies in Certain Account Balances

Observation: Discrepancies exist between amounts per the general ledger (GL) and balances per provided schedules or per confirmation replies for the following accounts:

Medical Claims Payable

Per GL	\$ 266,157.34
Per schedule	<u>264,985.79</u>
Difference	\$ <u><u>1,171.55</u></u>

4. Discrepancies in Certain Account Balances, Continued

Premiums receivable - State

Per GL	\$ 234,638.84
Per schedule	<u>225,520.98</u>
Difference	\$ <u>9,117.86</u>

Accumulated depreciation-fixed assets

Per GL	\$ 24,961.00
Per roll forward analysis	<u>30,481.00</u>
Difference	\$ <u>(5,520.00)</u>

Recommendation: Management should reconcile its general ledger accounts on a monthly basis. The lack of appropriate reconciliations was also reported as a finding in the 2006 audit.

5. Lease Agreements

Observation: The following was noted per our reading of Plan lease agreements:

- The Plan does not have an updated lease for its current location.
- The Plan pays for a house lease, which has no current lease agreement.

Recommendation: Management should ensure that all leases cover current periods.

6. Depreciation

Observation: The Plan has depreciated a vehicle over a 15-year life. Vehicles are usually depreciated over no more than a 5-year life due to the conditions of Chuuk roads.

Recommendation: A depreciation policy should be established and fixed assets should be depreciated over reasonable estimated useful lives.

7. Benefit Accruals

Observation: Management currently keeps its books open for a substantial time period after year end (up to eight months) to allow all claims pertinent to the fiscal year to be captured and recorded. Management has yet to utilize an actuary for purposes of determining its required claims reserves.

Recommendation: Management should commence use of a lag analysis to allow for projection of claims liabilities. Additionally, management should consider use of an actuary to assist in claims reserves and in plan pricing.

Mr. Karsom Enlet
Chuuk State Health Care Plan
June 6, 2008

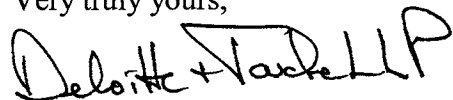
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We have communicated certain matters noted during our audit of the financial statements of the Plan for the year ended September 30, 2007, which we considered to be significant deficiencies in internal control over financial reporting, in our report dated June 6, 2008.

This report is intended solely for the information and use of the Plan's management, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the cooperation of the staff and management of the Plan during the course of our audit.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.